

Message Text

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FM AMEMBASSY MONTEVIDEO

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INFO AMEMBASSY ASUNCION

AMEMBASSY BRASILIA

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C O N F I D E N T I A L SECTION 1 OF 2 MONTEVIDEO 3341

C O R R E C T E D C O P Y (DELETE NOTE. TEXT CORRECT AS SENT
ORIGINALLY.)

E.O. 11652: GDS

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SUBJ: URUGUAY FOUR MONTHS AFTER CLOSING CONGRESS

CINCSO FOR POLAD

1. SUMMARY. SINCE CLOSING CONGRESS IN JUNE, THE BORDABERRY ADMINISTRATION HAS EMBARKED ON A COURSE WHICH ALREADY HAS BROUGHT PROFOUND CHANGE. WHILE THE PRESIDENT AND THE MILITARY APPEAR TO BE IN AGREEMENT ON BASIC POLICY DIRECTION, BORDABERRY IS UNDER GREAT PRESSURE FROM SEGMENTS OF THE MILITARY TO PUT A PROMPT END TO URUGUAY'S YEARS OF ECONOMIC STAGNATION. THE ADMINISTRATION HAS DRAFTED A NUMBER OF LONG NEEDED ECONOMIC REFORM MEASURES SUCH AS NEW FOREIGN INVESTMENT AND INDUSTRIAL PROMOTION NWLAWS AND HAS SET GUIDELINES FOR SOCIAL SECURITY REFORM, BUT MAJOR OBSTACLES TO DEVELOPMENT REMAIN. NEVERTHELESS, THE ADMINISTRATION APPEARS TO BE CONFIDENT IN WHAT IT IS DOING AND PREPARED TO ACCEPT THE SHORT-TERM POLITICAL AND SOCIAL COSTS INVOLVED. OVER THE SHORT TERM WE FORESEE LITTLE CHANGE IN THE
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PRESENT DIRECTION OF EITHER FOREIGN OR NEW DOMESTIC POLICIES.

2. CHANGE IN URUGUAY. THE PROCESS WHICH BEGAN IN URUGUAY SLIGHTLY OVER FOUR MONTHS AGO WITH THE CLOSING OF THE CONGRESS IN

JUNE CAN BE TERMED A REVOLUTIONARY ONE. THAT PROCESS HAS BEEN NEITHER BLODDY NOR RAPID BUT RATHER SLOW MOVING, A LA URUGUAYA. NEVERTHELESS, IT HAS BEEN PROFOUND, IN SOME WAYS AS PROFOUND AS THE CHANGE IN CHILE, PARTICULARLY WHEN VIEWED IN THE TRADITIONAL URUGUAYAN CONTEXT. SINCE JUNE 27 THE BORDABERRY GOVERNMENT HAS CLOSED THE CONGRESS, PROSCRIBED POLITICAL ACTIVIT, IMPOSED CENSORSHIP STIFLE CRITICISM, OUTLAWED THE DOMINANT COMMUNIST-CONTROLLED LABOR CONFEDERATION, TEMPORARILY SUSPENDED ACTIVITIES OF THE NATIONAL UNIVERSITY AND HAS PLANS T OUTLAW THE FEDERATION OF UNIVERSITY STUDENTS AND ITS AFFILIATED GROUPS. THE GOVERNMENT'S POWER BASE HAS SHIFTED TO HE ARMED FORCES, UT THIS HAS NOT SO FAR COST THE GOVERNMENT THE SUPPORT OF AN AMPLE AND GROWING POPULAR SUPPORT. THE TRADITIONAL URUGUAYAN "POLITICS OF COMPROMISE" HAS BEEN ABANDONEDIN FAVOR OF A STRONG CIVIL/MILITARY COMMITTEMENT TO DEVELOPMENT AND INSTITUTIONAL REFORM.

3. PRESIDENT AND MILITARY--SIMILARITIES. JUAN MARIEDBORDA-BERRY IS A CONSERVATIVE, DEVOUTLY CATHOLIC, RURAL-ORIENTED, ANTI-COMMUNIST, FAMILY MAN WHOSE MORAL CONDUCT IS ABOVE REPROACH. BUT HE IS ALSO RIGID AND INFLEXIBLE AND NEITHER A STRONG ADMIN-ISTRATOR CAPABLE OF ATTRACTING STRONG ADMINISTRATORS NOR AN IDEO-LOGUE. HIS CHARACTERISTICS MAKE HIM COMFORTABLE WITH THE MILITARY, AND THE INTERMINABLE DEBATES AS TO WHETHER BORDABERRY OR THE MILITARY IS BEHIND ANY GIVEN MOVE USUALLY MISS THE KEY POINT-- THAT BORDABERRY AND THE MILITARY GENERALLY ARE NOW THINKING ALONG THE SAME LINES.

4. WE BELIEVE THAT BORDABERRY INITIATED THE MOVE TO CLOSE THE CONGRESS. IN LIKE MANNER, IT WAS BORDABERRY, NOT THE MILITARY, WHO DRAFTED A DECREE EXPECTED TO BE ISSUED SOON OUTLAWING OR DIS-SOLVING THE COMMUNIST PARTY (PCU). THESE STEPS AND OTHERS, CONCEIVED IN TERMS OF PATRIOTISM, MORILITY, OR MORE PRACTICAL CONSIDERATIONS, HAVE ALLIED THE PRESIDENT FREQUENTLY WITH THE SO-CALLED HARD-LINERS SUCH AS FIRST DIVISION COMMANDER GENERAL ESTEBAN CRISTI. THE PRESIDENT AND THE MILITARY HAVE PROCLAIMED IN ALMOST MESSIANIC TERMS THAT THEY ARE SAVING URUGUAY. PRIVATE CONVERSATIONS WITH THE MILITARY ADD WITH SOME OF BORDABERRY'S CONFIDENTIAL

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CIVILIAN ASSOCIATES SHOW THESE MEN TO BELIEVE THAT IN CLOSING THE CONGRESS, OUTLAWING THE COMMUNIST LABOR CONFEDERATION, INTERVENING THE UNIVERSITY, ATTEMPTING TO DYNAMIZE THE BUREAUCRACY, AND INVESTIGATING "ECONOMIC CRIMES" THEY ARE ROOTING OUT THE CORRUPTION OF THE PAST AND DRAWING THE LINE FOR A NEW MORALITY AND NEW APPROACH TO THE COUNTRY'S PROBLEMS.

5. PRESIDENT AND MILITARY--DIFFERENCES. PROBABLY ALL BUT COM- PLETELY AUTHORITARIAN DICTATORIAL REGIMES OPERATE TO A DEGREE ON THE BASIS OF SHIFTING COALITIONS. THIS IS ALSO TRUE OF THE BORDABERRY REGIME. WHILE THE PRESIDENT JOINED WITH GENERAL CRISIT ON THE PLANS TO OUTLAW THE PCU, FOR EXAMPLE, HE WAS OPPOSED BY CO NESTOR BOLENTINI, MINISTER OF INTERIOR AND OTHER MILITARY LEADERS,

WHO WANT TO KEEP THE PARTY ABOVE GROUND. AT THE SAME TIME, THE SO-CALLED "CRISTI PEOPLE", INCLUDING THE BROTHERS ZUBIA, COMMANDERS OF THE SECOND AND THIRD DIVISIONS, HAVE BEEN BITTER CRITICS OF OTHER ADMINISTRATION ACTIONS. FOR EXAMPLE, THE CRISTI-BACKED RIGHTIST WEEKLY, AZUL Y BLANCO, ATTACKED THE SAN MIGUEL MEETINGS, PARTICULARLY THE ROLES OF THE MINISTRIES OF ECONOMY AND FINANCE AND OF INDUSTRY AND COMMERCE AND THE OFFICE OF PLANNING AND BUDGET, CHARGING THAT THE TREND OF GOVERNMENT WAS TOWARDS A "MARXIST TECHNOCRATIC STATISM." ON THIS AND OTHER ISSUES THE PRESIDENT HAS HAD THE MORE MODERATE SERVICE CINCS AND GENERAL GREGORIO ALVAREZ, CHIEF OF THE JOINT STAFF AND OF THE NATIONAL SECURITY COUNCIL

SECRETARIAT (COSENA), IN HIS CAMP. MOST RECENTLY, THE THE PRESIDENT FACED A POTENTIALLY SERIOUS CONFRONTATION WITH THE MILITARY (SEE MVD 3331), ONE WHICH STILL MAY DEVELOP. NONE-THELESS, IN THIS CASE THE TROOP COMMANDERS, USUALLY IN ACCORD, SPLIT, WITH GENERALS CRISTI
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C O N F I D E N T I A L SECTION 2 OF 2 MONTEVIDEO 3341

ENTERPRISES AND AN OVERHAUL OF THE SOCIAL SECURITY SYSTEM. THESE MEASURES HAVE LONG BEEN URGED BY EXPERT ECONOMISTS AND INTERNATIONAL LENDING AGENCIES. THE GOU IS ON THE RIGHT PATH, BUT WILL PLANNING RESULT IN PERFORMANCE? PREVIOUS URUGUAYAN EXPERIENCE WOULD SUGGEST NOT. IN FACT, IMPATIENT CRITICS OF THE REGIME ALREADY CAN CHARGE WITH SOME JUSTIFICATION THAT LITTLE IN THE WAY OF CONCRETE ACTION HAS COME OUT OF SAN MIGUEL AND NIRVANA. EVEN THE ADMINISTRATION'S AVID SUPPORTERS CAN POINT ONLY TO LIMITED PRICE DECONTROL, THE ABOLISHMENT OF SOME NUISANCE-TYPE EXPORT TAXES AND A LIST OF PROJECTED LAWS AND DECREES AWAITING CREATION OF AND APPROVAL BY THE COUNCIL OF STATE.

8. A POTENTIALLY SERIOUS IMPEDIMENT TO DEVELOPMENT IS THE INABILITY OF THE GOVERNMENT TO HOLD OR ATTRACT ADMINISTRATORS AND

TECHNICIANS. THIS IS A HIGHLY POLITICIZED SOCIETY, AND MANY OF URUGUAY'S MOST CAPABLE ADMINISTRATORS AND TECHNICIANS EITHER ARE POLITICIANS AND THUS NO LONGER ACCEPTABLE TO THE PRESENT GOVERNMENT OR THEY BELONG TO AND SUPPORT POLITICAL GROUPS WHICH HAVE DECIDED NOT TO COOPERATE WITH THE BORDABERRY ADMINISTRATION. IN ANY CASE, MANY OF THE NATION'S BEST PEOPLE EITHER HAVE BEEN EXCLUDED FROM PARTICIPATION IN DEVELOPMENT OR HAVE CHOSEN NOT TO BECOME IDENTIFIED WITH THIS REGIME AND THUS EXCLUDED THEMSELVES FROM SUCH PARTICIPATION.

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TION. OTHERS REMAIN IN THE GOVERNMENT SIMPLY BECAUSE THEY NEED EMPLOYMENT, BUT ARE NOT SUPPORTERS OF THE GOVERNMENT'S INITIATIVES

9. WHILE IT MAY HAVE A SET OF NEW POLICIES, HE BORDABERRY ADMINISTRATION MUST CONTEND WITH AN OLD BUREAUCRACY. FOR MANY YEARS THE OVER-STAFFED, INEFFICIENT BUREAUCRACY BLOCKED EFFECTIVE ACTION. THIS ADMINISTRATION IS FACED NOT ONLY WITH THE SAME BUREAUCRACY BUT ALSO WITH BUREACRATS WHO, AS PRODUCTS OF THE TRADITIONAL POLITICAL SYSTEM, MAY WELL SHOW THEIR RESENTMENT TOWARD THE PRESENT GOVERNMENT BY BLOCKING ANY FORWARD MOVEMENT AS LONG AS THEY CAN. MANY HAVE BEEN IDENTIFIED AND SOME WILL BE WEEDED OUT BUT THE PRUNING PROCESS WILL BE LONG AND DIFFICULT. WE HAVE LITTLE DOUBT, HOWEVER, THAT THE PROCESS WILL CONTINUE AND WILL PERHAPS BE ACCELERATED AS PRESSURES FOR CONCRETE ACCOMPLISHMENTS BECOME GREATER.

10. THE DEVELOPMENT OUTLOOK WILL DEPEND IN LARGE PART ON WHAT COST THE GOU IS WILLING TO PAY. THERE ARE INDICATIONS THAT IT IS WILLING TO PAY A HIGH COST AND THAT THE PROCESS IS WELL ADVANCED. THE MOVE AWAY FROM REPRESENTATIVE DEMOCRACY HAS ACCELERATED AS BOTH THE PRESIDENT AND THE MILITARY HAVE GAINED CONFIDENCE IN THEMSELVES AND IN THE CORRECTNESS OF THEIR ACTIONS AS THEY SEEM THEM. THIS NEW-FOUND CONFIDENCE IS BASED LARGELY ON EVENTS SINCE EARLY AUGUST, BEGINNING WITH THE UTTER FAILURE OF AN ATTEMPT BY COMMUNIST LABOR TO FOMENT A GENERAL STRIKE ON AUG 1. NOT LONG AFTER, THE TOP CIVILIAN AND MILITARY LEADERSHIP MET AT SAN MIGUEL (AUGUST 26

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30) TO MAP OUT SPECIFIC MEASURES TO END URUGUAY'S LONG YEARS OF ECONOMIC STAGNATION, AN OBJECTIVE OF BOTH THE PRESIDENT'S FIVE-YEAR PLAN AND MILITARY COMMUNIQUE NOS 4 AND 7 OF FEBRUARY. OUT OF SAN MIGUEL CAME A NEW SPIRIT OF TEAMWORK AND HOPE, ONE WHICH EVEN SEEMED TO SHORE UP THE LAGGING SPIRITS OF THE BUSINESS COMMUNITY. THE ADMINISTRATION'S NEW-FOUND CONFIDENCE IS BASED ALSO ON PUBLIC APPROVAL FOR ITS HANDLING OF BOTH LABOR AND THE LARGELY DISCREDITED POLITICIANS. THIS APPROVAL HAS BEEN FELT BY THE PRESIDENT AND AND THOSE ACCOMPANYING HIM IN HIS PUBLIC APPEARANCES AND AMPLY DEMONSTRATED IN THE MONTHLY GALLUP POLLS WHICH SHOWED AND CONTINUE TO SHOW NOT ONLY BROAD SUPPORT FOR THE ADMINISTRATION BUT ALSO AN INCREASE IN PUBLIC CONFIDENCE IN THE FUTURE. FINALLY

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EVENTS IN CHILE AND LATER IN ARGENTINA CONVINCED URUGUAYAN LEADERS THAT THEY ARE NO LONGER ALONE IN TAKING A HARDER LINE WITH RESPECT TO DOMESTIC OR EVEN INTERNATIONAL COMMUNISM. INCREASINGLY HARSH ANTI-COMMUNIST MEASURES FOLLOWED QUICKLY. BASICALLY, THEY ARE DETERMINED TO FREE URUGUAY FROM THE POLITICAL CONSTRAINTS ON DEVELOPMENT WHICH HAVE PRODUCED STAGNATION AND DEMORALIZATION IN THE PAST.

11. ECONOMIC IMPLICATIONS. WE CANNOT PREDICT WITH CERTAINTY WHETHER THE ADMINISTRATION WILL REMAIN EQUALLY DETERMINED IF POPULAR SUPPORT FOR IT WANES AND PUBLIC CONFIDENCE IN THE FUTURE FALTERS

THE SAM MIGUEL AND NIRVANA MEETINGS MAY HAVE FIRED THE PUBLIC'S IMAGINATION, BUT INFLATION CONTINUES, AND MUCH OF THAT PUBLIC REMAINS CAUGHT IN A PAINFUL WAGE-PRICE SQUEEZE WITH REAL WAGES SUBSTANTIALLY LOWER THAN WHAT THEY WERE SEVERAL YEARS AGO. IN THE THREE MONTHS IMMEDIATELY FOLLOWING THE LAST GENERAL WAGE INCREASE ON JULY 1, THE COST OF LIVING WENT UP ANOTHER 21 PERCENT. GALLUP POLLS MAY START TO SHOW RISING DISCONTENT OVER THE PERSISTENTLY

RISING COST OF LIVING. IF THIS HAPPENS, THE ADMINISTRATION MIGHT BE TEMPTED TO RELAX THE ANTI-INFLATIONARY LINE RECENTLY REAFFIRMED AT NIRVANA, A LINE THAT PROMISES EVENTUAL IMPROVEMENT OF REAL WAGES, BUT TRIES TO DELAY AND LIMIT INCREASES IN MONETARY WAGES.

12. FIRST SIGN OF A CRACK IN THE LINE IS THE RECENT TALK--PUSHED BY SOME BUSINESS GROUPS--OF PAYING HALF OF THE ANNUAL YEAR-END BONUS (AGUINADDO) IN NOVEMBER INSTEAD OF ALL OF IT IN DECEMBER AS CUSTOMARY. POTENTIALLY MORE SIGNIFICANT WILL BE THE SIZE OF THE NEXT GENERAL WAGE INCREASE WHICH THE GOU IS EXPECTED TO AUTHORIZE IN JANUARY. WE HAVE SAID WE BELIEVE THE GOU IS ON THE RIGHT PATH IN ITS ECONOMIC POLICIES, BUT WE CANNOT BE CERTAIN IT WILL STICK WITH THEM IF AND WHEN THEY MIGHT BECOME UNPOPULAR. YET THE ANTI-INFLATION BATTLE IS VITALLY IMPORTANT TO THE ENTIRE DEVELOPMENT EFFORT BOTH IN NATIONAL AND INTERNATIONAL TERMS, AND ITS SUCCESS OR LACK THEREOF WILL HAVE SIGNIFICANT EFFECTS ON THE ENTIRE ECONOMIC AND POLITICAL STRUCTURE.

13. POLITICAL PROSPECTS OVER THE NEXT FEW MONTHS WE EXPECT CHANGES IN THE CABINET AND AMONG SENIOR MILITARY PERSONNEL BUT NO SIGNIFICANT CHANGE IN DOMESTIC OR FOREIGN POLICY. OF MAJOR IMPORT-
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ANCE TO THE U.S. IS THAT THE GOU'S POSITION IN INTERNATIONAL FORA SUCH AS THE UN AND THE OAS ESSENTIALLY WILL PARALLEL OURS.

14. MID-TERM PROSPECTS FOR THE ADMINISTRATION REST LARGELY WITH THE MILITARY, PARTICULARLY THE TROOP COMMANDERS. THEY WANT AN INCREASED VOICE IN GOVERNMENT AND AN ECONOMIC MIRACLE.

THE PRESIDENT'S CONTINUATION IN OFFICE WILL DEPEND IN PART ON WHETHER HE SATISFIES THEIR DESIRE FOR PARTICIPATION AND ON RESULTS OF THE ECONOMIC PROGRAM, JUDGED BY THEM.

15. THE URUGUAYAN MILITARY IS FOLLOWING NO FOREIGN MODEL-- BRAZILIAN, PERUVIAN, OR OTHER. THEY THEMSELVES ARE ADAMANT ON THIS AND A CLOSE LOOK SHOWS SIGNIFICANT DIVERGENCE FROM ANY OTHER PATTERN. URUGUAYANS, CIVILIANS AND MILITARY, ARE BASICALLY A MIDDLE-CLASS, EDUCATED PEOPLE AND THIS WILL BE REFLECTED IN THEIR ULTIMATE POLITICAL DESTINY.
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